



Tricia Quinn
Smarter Metering
Ofgem
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23 January 2015

Dear Tricia

DCC Price Control Consultation

EDF Energy is one of the UK's largest energy companies with activities throughout the energy chain. Our interests include nuclear, coal and gas-fired electricity generation, renewables, and energy supply to end users. We have over five million electricity and gas customer accounts in the UK, including residential and business users.

EDF Energy welcomes the opportunity to comment on the DCC Price Control Consultation, and is generally supportive of the approach taken by Ofgem.

We remain committed to the DCC and the benefits that it provides of a common, secure interface between Suppliers and enrolled smart meters. This will ensure that customers can benefit from a seamless smart service from all Suppliers, while having confidence that the DCC is providing security for their data and their smart meter. However, we must stand on the side of the customer and ensure that the DCC is delivered economically and efficiently to minimise the impact on the customer bill.

We recognise that in assessing the DCC's costs, Ofgem will have to access to more detailed and granular data than can be shared with the industry. We are therefore reliant on Ofgem to undertake the detailed assessment of DCC's costs and to reach a view on whether costs have been efficiently incurred or not. At the same time, we remain concerned at the continuing escalation in DCC costs and the transparency that has been afforded to industry on these.

As a Supplier who is required to fund the DCC, we remain concerned that costs have increased by £71m since the contract was awarded in September 2013. At the time of the first re-planning exercise in March 2014 it was identified that costs would increase in the region of £25m. However, there has been limited transparency regarding the additional £41m identified in Ofgem's consultation. We are also concerned that the DCC is incurring costs as a result of change requests and service expansion with no Supplier governance associated with these change requests or cost impacts. We are therefore unable to assess whether these have been efficiently incurred or whether cheaper, more effective models to deliver these solutions were available.

Going forward we welcome Ofgem's recommendation that the DCC engage with Suppliers more effectively on the change management process and improve transparency on the cost reporting side. Since the DCC contract was awarded, we have encouraged the DCC to set up a forum similar to the gas and electricity charging methodology forums

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that the network owners support. This would provide Suppliers with an open face to face forum to understand the DCC cost drivers and pose questions. To date, the DCC has facilitated a charging webinar; however, this provides limited additional value with questions filtered on the day, and no ability for follow up questions or challenges from Suppliers.

Our detailed responses are set out in the attachment to this letter. Should you wish to discuss any of the issues raised in our response or have any queries, please contact my colleague Ashley Pocock on 01293 898595, or myself.

Yours sincerely,

A handwritten signature in blue ink that reads "Paul Delamare".

Paul Delamare
Head of Customers Policy and Regulation

Attachment

DCC Price Control Consultation

EDF Energy's response to your questions

Q1. What are your views on our approach to assessing DCC's costs? And do you have any suggestions on where we can improve our approach?

EDF Energy is generally supportive of the approach Ofgem is taking to assess DCC costs. Close management of expenditure is essential if the energy industry is to obtain value for money. The DCC must continue to fully explain and justify all areas of potential additional expenditure in addition to providing evidence to demonstrate the industry is getting value for money in all cases.

We were concerned to note that for the initial period of review covering the regulatory year from 23 September 2013 until 31 March 2014, Ofgem identified examples where DCC had not provided sufficient evidence to the level of detail required. In order to prevent further examples of this type of failure and to avoid having to use additional sources of information to supplement the Regulatory Instructions and Guidance (RIG), the RIG may require some modifications. This will provide greater granularity once set up is complete and secondly once operational.

Q2. What are your views on our assessment of DCC's performance against the IMs?

EDF Energy recognises that in order to deliver their milestones the DCC is reliant on DECC delivering their products on time and to standard. As such, we recognise that the ability for the DCC to hit their milestones is not entirely in their control. At the same time it must also be recognised that Suppliers are reliant on the DCC in order to inform and finalise their system design.

We were therefore disappointed when the DCC failed to deliver the IM5 milestone as set out in their Licence due to the impact that this had on Supplier system design and delivery. Of particular concern was the lack of transparency and communication around this delay, even after the deadline had passed. Indeed EDF Energy wrote to Ofgem and DCC to highlight this Licence breach and lack of communication around delay.

We do not believe that this approach to stakeholder management or engagement is professional or acceptable, and so fully support Ofgem's view that the DCC failed to deliver IM5. In order to improve transparency between DCC and Suppliers we believe a more collaborative approach is required.

Going forward, we would encourage the DCC to undertake open and inclusive reporting of progress against all DCC milestones to all parties to ensure risks and issues are identified early and mitigation put in place.

Q3. Do you have any observations from the current incentive framework which can inform early thinking on developing an enduring framework?

Based on our experience to date, it appears that the DCC focus is on delivering the milestones within their Licence, which is the focus of their incentive framework. If the milestones are not deliverable then the focus is on managing and engaging with DECC who are responsible for amending these milestones within the Licence. Going forward, we believe that an incentive mechanism should be developed to encourage the DCC to engage openly and fully with other stakeholders, through a stakeholder satisfaction incentive.

A charging incentive should be developed so that the DCC is encouraged to ensure that the revenue it collects is within an allowed tolerance of its allowed revenue. We note that this approach has been adopted by Ofgem for the network owner incentives and has helped to reduce any significant over or under recoveries. We also believe that this should be coupled with an incentive to minimise within year price changes to ensure that the DCC does not meet its tolerance by amending it's within year charges.

Q4. What are your views on our proposal?

EDF Energy agrees that the DCC financial spending should be kept closely in line with their Licence Application Business Plan (LABP) submitted at the time of DECC's procurement.

EDF Energy supports the proposals set out in table 3.1 of the consultation showing the areas where costs were not proven as justified as being economic and efficient. We believe robust monitoring of these costs is required i.e. where DCC indicates the requirement for long term contractors.

Challenges should be made to DCC to reduce their proposed increased financial forecast of £71 million relative to LABP over the licence which will ultimately fall to consumers to cover. DCC must be more transparent of their external service provider costs to stakeholders to ensure they are operating effectively

Q5. Do you have any views on how the RIIO price control approach could be applied to DCC in future?

In principle, we support the adoption of a RIIO price control approach for the DCC as this will provide certainty to the DCC, and Suppliers, of the services that the DCC must deliver and their cost allowance for delivering this. We also believe that this will further encourage the DCC to improve its stakeholder engagement and service when developing its business plans. However, we also note that large elements of the DCC costs are driven by its service providers. The application of the RIIO process would therefore require active engagement and participation by the DCC and its service providers.

Under price control we would expect any repayment of charges due to Suppliers to be made in a fast and efficient manner.

Q6. We are looking for ways to benchmark DCC costs. What other sources of data or potential comparators can you recommend for subsets of DCC costs?

The DCC role is broadly equivalent to that of Elexon's in terms of contract administration and change management. We therefore believe that these would act as potential comparators for costs and efficiencies across a broad range of activities from resource to change management and overhead costs including office and HR costs.

There may also be benefits from collaborating with Ofcom to identify if they have access to cost data that can help support Ofgem's work for reviewing both the CSP and DSP costs.

Q7. What are your views on DCC's approach to the prudent estimate?

EDF Energy remains concerned at the scale of the prudent estimate that the DCC has included in its charging statement, and Ofgem's view that this is greater than necessary to cover their cash flow risk. All of the DCC costs are a cost to the consumer and we must do everything to ensure that this impact is minimised.

As such, we believe that the DCC should be required to justify the size of its prudent estimate and for this to be accompanied by supporting information provided to Ofgem.

Q8. Do you agree that our proposals should take effect from April 2015/16?

EDF Energy agrees the proposals should take effect from April 2015/16 as this is the earliest opportunity to return monies to Suppliers.

Q9. Do you agree with our assessment against the criteria in the licence?

EDF Energy agrees with Ofgem's assessment against the criteria in the licence. As per Ofgem's assessment, we do not believe that the DCC has made the case to increase its baseline margin, or demonstrated increased risk or burden in addition to what could have been expected at the time of Licence award.

Q10. What are your views on our longer term strategy of moving towards a more ex ante price control? How might this be achieved?

EDF Energy welcomes Ofgem's proposals of moving towards an ex-ante price control approach. We believe that this will provide certainty to both the DCC and Users of the required outputs and associated costs and revenues of delivering these.

EDF Energy
January 2015